

Department of Legislative Services  
Maryland General Assembly  
2019 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 857  
Ways and Means

(Delegate M. Fisher, *et al.*)

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Personal Property Tax - Investments in Maryland

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This bill exempts, from the personal property tax, property that is owned by a business that (1) has organized under the laws of Maryland during the current tax year or (2) relocates its headquarters to Maryland during the current tax year. Also, beginning in fiscal 2022, the bill exempts all personal property, except for operating personal property of a railroad or public utility and specified telecommunications property, from county or municipal property taxes. **The bill takes effect June 1, 2019, and applies to all taxable years beginning after June 30, 2019; the personal property tax exemption applies to taxable years beginning after June 30, 2021.**

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Fiscal Summary

**State Effect:** General fund expenditures increase by \$60,000 in FY 2020 for computer programming changes at the State Department of Assessments and Taxation (SDAT). Special fund revenues and expenditures increase by a commensurate amount in FY 2020.

**Local Effect:** Local property tax revenues will decrease beginning in FY 2021 to the extent businesses start up or relocate their headquarters to Maryland. Beginning in FY 2022, local government revenues may decrease by an estimated \$330.6 million annually due to the business personal property tax exemption. Local expenditures increase by \$60,000 in FY 2020. **The bill imposes a mandate on a unit of local government.**

**Small Business Effect:** Potential meaningful.

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## Analysis

**Bill Summary:** SDAT must identify provisions of the Annotated Code of Maryland or the Code of Public Local Laws that are rendered inaccurate or obsolete as a result of specified provisions of the bill and must submit a report to the General Assembly by December 1, 2019, on its findings with recommendations for any amendments to the Annotated Code of Maryland or the Code of Public Local Laws.

**Current Law:** County and municipal governments impose property taxes on business-owned personal property. **Appendix – Personal Property Taxation in Maryland** provides an overview on how personal property taxes are imposed and collected in Maryland. The Appendix also includes information on personal property tax rates and the assessable base amounts for fiscal 2019.

**State Fiscal Effect:** SDAT advises that the department does not have an inventory of specified telecommunications property as identified in the bill. As a result, the department will have to create a new subclass of business personal property in its database, which will require computer programming changes at an estimated cost of \$120,000 in fiscal 2020.

Under current law, the State and county governments share the cost for SDAT's assessment operations (both real property and personal property) as well as the department's information technology operations. Based on the estimated expenditures for computer programming, general fund expenditures would increase by \$60,000 in fiscal 2020. Special fund revenues and expenditures from county government reimbursements increase by a commensurate amount in fiscal 2020.

**Local Fiscal Effect:** The bill affects local personal property tax collections in two ways. First, the bill provides a one-year personal property tax exemption for businesses that either start up or relocate their headquarters to Maryland for the tax year in which the start-up or relocation occurs. Second, beginning in fiscal 2022, the bill provides a personal property tax exemption for all personal property, except for operating personal property of a railroad or a public utility, and property used to provide a cable television, data, or telecommunications service, including all fiber-optic and other cable wire systems, cellular telephone towers, and wireless appurtenances attached to or installed on cellular telephone towers.

### *One Time Start-up Exemption*

Local property tax revenues may decrease beginning in fiscal 2021 to the extent businesses start up or relocate in Maryland during a given year. The revenue loss depends on the number of qualifying businesses and the assessed value of personal property. The amount of any revenue decrease will also vary between jurisdictions as counties have different tax

rates and some counties do not tax personal property. To the extent a large company starts up or moves its headquarters, the effect could be significant in that year.

### *Personal Property Tax Exemption*

Beginning in fiscal 2022, the bill exempts all personal property from local taxation, except for operating personal property of a railroad or public utility and specified telecommunications property. As a result, local personal property tax revenues will decrease by a significant amount beginning in fiscal 2022. SDAT estimates that the countywide business personal property assessable base will total approximately \$12.1 billion for fiscal 2020.

SDAT does not currently have data as to the amount of personal property owned by various telecommunications services referenced in the bill. As a point of reference, if specified telecommunications property comprises 15% of the county business personal property assessable base, and the business personal property tax base remains constant, county personal property tax revenues may decrease by approximately \$309.1 million beginning in fiscal 2022. Municipal property tax revenues will decrease by an estimated \$21.5 million.

To the extent the actual personal property assessable base, including the amount of telecommunications property within the assessable base, differs from the estimate, the effect of the property tax exemption will vary accordingly.

As noted, county governments are required to reimburse SDAT for 50% of the department's real and personal property assessment costs. Therefore, county expenditures increase by \$60,000 in fiscal 2020.

**Small Business Effect:** Beginning in fiscal 2022, small businesses will not be subject to local personal property taxes with regard to certain business personal property. As a point of reference, in fiscal 2018, there were 354,855 personal property tax reports filed with SDAT, of which 106,089 had assessed personal property. The average personal property assessment was \$104,416, resulting in an average tax amount of \$2,606.

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## **Additional Information**

**Prior Introductions:** HB 380 of 2018 received an unfavorable report from the House Ways and Means Committee. HB 1367 of 2017, HB 572 of 2016, HB 161 of 2015, HB 1129 of 2014, HB 856 of 2013, and HB 1065 of 2012 received hearings in the House Ways and Means Committee, but no further action was taken on any of the bills.

**Cross File:** None.

**Information Source(s):** Maryland Association of Counties; Maryland Municipal League; State Department of Assessments and Taxation; Department of Legislative Services

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## Appendix – Personal Property Taxation in Maryland

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In Maryland, there is a tax on business-owned personal property that is imposed and collected by local governments. Personal property generally includes business property including furniture, fixtures, office and industrial equipment, machinery, tools, supplies, inventory, and any other property not classified as real property. To provide for uniform assessments, the State Department of Assessments and Taxation (SDAT) is responsible for assessing all personal property. Each county or municipal government is responsible for issuing the tax bills and collecting the tax. The tax year begins on July 1 and ends on June 30. The personal property tax has been a local tax exclusively since 1984 when the State tax rate on personal property was set at zero.

At the beginning of each calendar year SDAT notifies business entities on record that a personal property tax return must be filed by April 15. This tax return must include personal property located in Maryland as of January 1, the date of finality. The “date of finality” is the date used to determine ownership, location, value, and liability for tax purposes. Beginning in 2017, all tax returns will be filed electronically. An annual report fee is required to be paid to SDAT with the personal property tax return. The annual report fee is for the privilege of maintaining the legal entity’s existence in the State. **Exhibit 1** identifies the amount of the report fee that each legal entity is required to pay.

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### Exhibit 1 Annual Reporting Fee Requirement

<u>Business Entity</u>	<u>Fee</u>	<u>Business Entity</u>	<u>Fee</u>
Stock Corp	\$300	Domestic Statutory Trust	\$300
NonStock Corp	0	Foreign Statutory Trust	300
Foreign Insurance Corp	300	Real Estate Investment Trust	300
Foreign Interstate Corp	0	Certified Family Farm	100
Limited Liability Company	300	Sole Proprietorship	0
Limited Liability Partnership	300	General Partnership	0
Limited Partnership	300	Amended Return	0

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Personal property, except inventory, is assessed based on the original cost less an annual depreciation allowance. The depreciation rate is determined based on the category of property. Seven rate categories (A through G) each pertain to different types of personal property. Except for data processing equipment and canned software, property may not be depreciated below 25%. For example, an item that was purchased for \$400 would be

reduced by the depreciation factor each year until it reaches a minimum value of \$100. Inventory is valued at its fair average value using the cost or market value, whichever is lower.

Certain personal property is exempt by statute or local law. Exemptions generally fall into two categories: those mandated by State law and those that are optional to local governments. There are certain organizations or groups whose personal property is exempt throughout the State. These organizations include religious groups, governmental entities, nonprofit hospitals, cemetery and mausoleum companies, and certain other groups that meet specified strict use criteria. In addition, State law requires that certain types of personal property be fully exempt throughout the State. These include aircraft, farming implements, residential (nonbusiness) property, most registered vehicles, boats not more than 100 feet in length, hand tools of mechanics or artisans, and intangible personal property (*e.g.*, stocks, bonds, patents, goodwill, trademarks, etc.).

State law authorizes local governments to exempt certain types of business personal property. The county or municipality where the property is located may authorize a full or partial exemption. The most significant categories that may be exempt from the personal property tax are commercial inventory, manufacturing and research and development inventory, and manufacturing and research and development machinery. Most counties offer exemptions for 100% of all three of these categories, but tax other types of business personal property. In addition, six counties (Dorchester, Frederick, Garrett, Kent, Queen Anne's, and Talbot) have elected to exempt all business personal property from county taxation. Garrett County does not tax business personal property, however the county does tax property of non-utility generators at the county personal property tax rate.

Chapter 102 of 2018 provides an exemption from personal property valuation and taxation if the total original cost of the personal property was less than \$2,500.

#### *Personal Property Tax Rates and Assessable Base Amounts*

As shown in **Exhibit 2**, the statewide assessable base for business personal property totals \$11.5 billion in fiscal 2019. Among counties that impose the business personal property tax, the assessable base ranges from a high of \$1.9 billion in Montgomery County to a low of \$58.0 million in Caroline County. On a per capita basis, business personal property ranges from \$1,323 in Charles County to \$3,714 in Worcester County. Tax rates on business personal property range from \$2.0875 in Worcester County to \$5.62 in Baltimore City.

**Exhibit 2**  
**County Business Personal Property Base**  
**Fiscal 2019**

<b>County</b>	<b>Personal Property Tax Rate</b>	<b>Business Personal Property</b>	<b>Per Capita Amount</b>
Allegany	\$2.4375	\$196,000,000	\$2,737
Anne Arundel	2.2550	1,480,000,000	2,582
Baltimore City	5.6200	1,260,000,000	2,060
Baltimore	2.7500	1,625,000,000	1,952
Calvert	2.2300	135,000,000	1,475
Caroline	2.4500	58,000,000	1,747
Carroll	2.5150	280,000,000	1,669
Cecil	2.6035	370,000,000	3,601
Charles	3.0125	211,250,000	1,323
Dorchester	0.0000	0	0
Frederick	0.0000	0	0
Garrett	0.0000	0	0
Harford	2.6049	710,000,000	2,816
Howard	2.9750	810,000,000	2,522
Kent	0.0000	0	0
Montgomery	2.4818	1,875,000,000	1,771
Prince George's	3.4350	1,500,000,000	1,643
Queen Anne's	0.0000	0	0
St. Mary's	2.1195	155,000,000	1,376
Somerset	2.5000	96,000,000	3,704
Talbot	0.0000	0	0
Washington	2.3700	361,000,000	2,397
Wicomico	2.1715	190,000,000	1,846
Worcester	2.0875	192,000,000	3,714
<b>Total</b>		<b>\$11,504,250,000</b>	<b>\$1,901</b>

Source: State Department of Assessments and Taxation